

BURGAN BANK GROUP

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

30 SEPTEMBER 2019 (UNAUDITED)



Building a better
working world

Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74
18-21st Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

Tel: +965 2295 5000
Fax: +965 2245 6419
kuwait@kw.ey.com
ey.com/mena



RSM Albazie & Co

Arraya Tower 2, Floors 41 & 42
Abdulaziz Hamad Alsaqar St., Sharh
P.O. Box 2115, Safat 13022 State of Kuwait

T +965 22961000
F +965 22412761

www.rsm.global/kuwait

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF BURGAN BANK K.P.S.C.

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Burgan Bank K.P.S.C. (the “Bank”) and its subsidiaries (collectively the “Group”) as at 30 September 2019, and the related interim condensed consolidated statement of income and the interim condensed consolidated statement of comprehensive income for the three month and nine month periods then ended, and the interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the nine months period then ended. The management of the Bank is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.” A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with the basis of presentation set out in Note 2.

Report on other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the Bank. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank’s Articles of Association and Memorandum of Incorporation, as amended, during the nine months period ended 30 September 2019 that might have had a material effect on the business of the Bank or on its financial position.

**REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION TO THE BOARD OF DIRECTORS OF BURGAN BANK K.P.S.C.
(continued)**

Report on other Legal and Regulatory Requirements (continued)

We further report that, during the course of our review, to the best of our knowledge and belief, we have not become aware of any violations of the provisions of Law No 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, during the nine months period ended 30 September 2019 that might have had a material effect on the business of the Bank or on its financial position.



WALEED A. AL OSAIMI
LICENCE NO. 68 A
EY
AL AIBAN, AL OSAIMI & PARTNERS



NAYEF M. AL BAZIE
LICENSE NO. 91-A
RSM Albazie & Co.

7 October 2019
Kuwait

Burgan Bank Group

Interim Condensed Consolidated Statement of Financial Position As at 30 September 2019 (Unaudited)

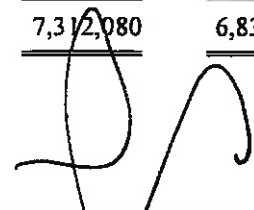
		30 September 2019	(Audited) 31 December 2018	30 September 2018
	Notes	KD 000's	KD 000's	KD 000's
ASSETS				
Cash and cash equivalents	4	697,401	1,164,270	872,091
Treasury bills and bonds with CBK and others		337,133	380,228	382,567
Due from banks and other financial institutions		630,488	594,265	486,289
Loans and advances to customers		4,218,363	4,262,740	4,155,239
Investment securities		475,951	544,255	554,250
Other assets		237,790	224,633	250,655
Property and equipment		130,327	109,050	102,621
Intangible assets		30,267	32,639	33,160
TOTAL ASSETS		6,757,720	7,312,080	6,836,872
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks		358,038	1,061,307	586,198
Due to other financial institutions		756,543	804,004	890,930
Deposits from customers		3,966,889	3,767,540	3,840,908
Other borrowed funds	5	457,134	456,164	356,542
Other liabilities	6	268,615	275,585	267,126
TOTAL LIABILITIES		5,807,219	6,364,600	5,941,704
EQUITY				
Share capital	7	262,500	250,000	225,942
Share premium		249,052	249,052	210,559
Treasury shares	7	(1,742)	(2,518)	(2,518)
Statutory reserve		90,545	90,545	81,815
Voluntary reserve		90,923	90,923	82,193
Treasury shares reserve		43,135	43,215	43,215
Fair value reserve		(27,622)	(24,284)	(18,320)
Share based compensation reserve		564	564	564
Foreign currency translation reserve		(145,101)	(137,871)	(150,652)
Other reserves	7	8,108	22,057	52,285
Retained earnings		176,455	170,653	175,182
Total equity attributable to the equity holders of the Bank		746,817	752,336	700,265
Perpetual Tier 1 capital securities	7	152,025	144,025	144,025
Non-controlling interests		51,659	51,119	50,878
TOTAL EQUITY		950,501	947,480	895,168
TOTAL LIABILITIES AND EQUITY		6,757,720	7,312,080	6,836,872



Khalid Al Zouman
Group Chief Financial Officer



Majed Essa Al Ajeel
Chairman of the Board



Masoud M. J. Hayat
Vice Chairman &
Group Chief Executive Officer

Burgan Bank Group

Interim Condensed Consolidated Statement of Income

Period ended 30 September 2019 (Unaudited)

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2019 KD 000's	2018 KD 000's	2019 KD 000's	2018 KD 000's
Interest income		91,336	92,533	262,723	276,200
Interest expense		(48,068)	(47,003)	(137,506)	(137,538)
Net interest income		43,268	45,530	125,217	138,662
Fee and commission income		11,623	11,559	32,918	33,651
Fee and commission expense		(1,641)	(1,770)	(4,446)	(5,012)
Net fee and commission income		9,982	9,789	28,472	28,639
Net gain from foreign currencies		1,610	3,882	5,634	10,796
Net investment income		6,348	1,640	11,173	1,752
Dividend income		112	5,287	3,564	11,336
Other income		624	1,322	4,206	15,426
Operating income		61,944	67,450	178,266	206,611
Staff expenses		(12,674)	(12,181)	(36,865)	(38,383)
Other expenses		(13,014)	(13,764)	(37,829)	(42,552)
Operating profit before credit loss expense and provisions		36,256	41,505	103,572	125,676
Provision for credit losses		(9,938)	(17,649)	(25,723)	(45,192)
Provision reversal (charge) for other financial assets		421	(56)	61	932
Profit before taxation		26,739	23,800	77,910	81,416
Taxation	8	(3,341)	(3,121)	(8,934)	(9,717)
Profit for the period		23,398	20,679	68,976	71,699
Attributable to:					
Equity holders of the Bank		22,688	20,489	67,454	70,960
Non-controlling interests		710	190	1,522	739
		23,398	20,679	68,976	71,699
Basic and diluted earnings per share - attributable to the equity holders of the Bank (Fils)	9	4.0	6.3	19.0	25.2

The attached notes 1 to 14 form an integral part of this interim condensed consolidated financial information.

Burgan Bank Group

Interim Condensed Consolidated Statement of Comprehensive Income

Period ended 30 September 2019 (Unaudited)

	<i>Three months ended</i> <i>30 September</i>		<i>Nine months ended</i> <i>30 September</i>	
	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
Profit for the period	23,398	20,679	68,976	71,699
Other comprehensive income				
<i>Items that will not be reclassified to interim condensed consolidated statement of income in subsequent periods:</i>				
Net change in fair value of equity instruments at fair value through other comprehensive income	(1,301)	(5,852)	(3,091)	(12,815)
	(1,301)	(5,852)	(3,091)	(12,815)
<i>Items that will be reclassified to interim condensed consolidated statement of income in subsequent periods:</i>				
Debt instruments at fair value through other comprehensive income:				
Net change in fair value	3,627	(1,280)	4,970	(4,306)
Changes in allowance for expected credit losses	(55)	2	(43)	(75)
Net transfer to interim condensed consolidated statement of income	(3,001)	148	(5,395)	1,254
Foreign currency translation adjustment	2,543	(31,124)	(7,285)	(53,708)
Changes in fair value of cash flow hedges	(5,584)	4,243	(5,030)	9,109
Net (loss) gain on hedge of a net investment	(5,919)	27,476	(8,964)	41,670
Other comprehensive loss for the period	(9,690)	(6,387)	(24,838)	(18,871)
Total comprehensive income for the period	13,708	14,292	44,138	52,828
Attributable to:				
Equity holders of the Bank	13,108	14,080	42,916	52,358
Non-controlling interests	600	212	1,222	470
	13,708	14,292	44,138	52,828

The attached notes 1 to 14 form an integral part of this interim condensed consolidated financial information.

Burgan Bank Group

Interim Condensed Consolidated Statement of Changes in Shareholder's Equity Period ended 30 September 2019 (Unaudited)

Attributable to the equity holders of the Bank

	Share capital KD 000's	Share premium KD 000's	Treasury shares KD 000's	Statutory reserve KD 000's	Voluntary reserve KD 000's	Treasury shares reserve KD 000's	Fair value reserve KD 000's	Share based compensation reserve KD 000's	Foreign currency translation reserve KD 000's	Other reserves* KD 000's	Retained earnings KD 000's	Total KD 000's	Perpetual Tier 1 capital securities KD 000's	Non-controlling interests KD 000's	Total equity KD 000's
Balance as at 1 January 2019	250,000	249,052	(2,518)	90,545	90,923	43,215	(24,284)	564	(137,871)	22,057	170,653	752,336	144,025	51,119	947,480
Profit for the period											67,454	67,454		1,522	68,976
Other comprehensive loss for the period							(3,336)		(7,230)	(13,972)	-	(24,538)		(300)	(24,838)
Total comprehensive (loss) income for the period							(3,336)		(7,230)	(13,972)	67,454	42,916		1,222	44,138
Bonus shares issued (note 7)	12,500										(12,500)				
Cash dividend (note 7)						(80)					(29,924)	(29,924)		(202)	(30,126)
Sale of treasury shares			776									696			696
Net movement in non-controlling interests										23		23		(480)	(457)
Net transfer to retained earnings for equity investments at FVOCI							(2)				2				
Proceeds from issue of Tier 1 capital securities**															
Tier 1 capital securities issuance cost**											(1,292)	(1,292)			(1,292)
Foreign currency translation adjustment											(175)	(175)	175		
Repayment of Tier 1 capital securities**											(8,378)	(8,378)	(144,025)		(152,403)
Interest payment on Tier 1 capital securities**											(9,385)	(9,385)			(9,385)
Balance as at 30 September 2019	262,500	249,052	(1,742)	90,545	90,923	43,135	(27,622)	564	(145,101)	8,108	176,455	746,817	152,025	51,659	950,501

*Refer note 7(c) for further break up of other reserves

**Refer note 7(e) for further details

The attached notes 1 to 14 form an integral part of this interim condensed consolidated financial information.

Burgan Bank Group

Interim Condensed Consolidated Statement of Changes in Shareholder's Equity (continued)

Period ended 30 September 2019 (Unaudited)

	Attributable to the equity holders of the Bank														
	Share capital KD 000's	Share premium KD 000's	Treasury shares KD 000's	Statutory reserve KD 000's	Voluntary reserve KD 000's	Treasury shares reserve KD 000's	Fair value reserve KD 000's	Share based compensation reserve KD 000's	Foreign currency translation reserve KD 000's	Other reserves* KD 000's	Retained earnings KD 000's	Total securities KD 000's	Perpetual Tier 1 capital securities KD 000's	Non-controlling interests KD 000's	Total equity KD 000's
Balance as at 1 January 2018	215,183	210,559	(2,817)	81,815	82,193	43,309	(12,446)	564	(97,203)	1,503	149,752	672,412	144,025	51,223	867,660
Transition adjustment on adoption of IFRS 9 at 1 January 2018	-	-	-	-	-	-	10,016	-	-	-	(8,827)	1,189	-	(634)	555
Balance as at 1 January 2018 (restated)	215,183	210,559	(2,817)	81,815	82,193	43,309	(2,430)	564	(97,203)	1,503	140,925	673,601	144,025	50,589	868,215
Profit for the period	-	-	-	-	-	-	-	-	-	-	70,960	70,960	-	739	71,699
Other comprehensive (loss) income for the period	-	-	-	-	-	-	(15,890)	-	(53,449)	50,730	7	(18,602)	-	(269)	(18,871)
Total comprehensive (loss) income for the period	-	-	-	-	-	-	(15,890)	-	(53,449)	50,730	70,967	52,358	-	470	52,828
Bonus shares issued (note 7)	10,759	-	-	-	-	-	-	-	-	-	(10,759)	-	-	-	-
Cash dividend (note 7)	-	-	-	-	-	-	-	-	-	-	(15,021)	(15,021)	-	(612)	(15,633)
Sale of treasury shares	-	-	299	-	-	(94)	-	-	-	-	-	205	-	-	205
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	52	-	52	-	431	483
Interest payment on Tier 1 capital securities (note 7)	-	-	-	-	-	-	-	-	-	-	(10,930)	(10,930)	-	-	(10,930)
Balance as at 30 September 2018	225,942	210,559	(2,518)	81,815	82,193	43,215	(18,320)	564	(150,652)	52,285	175,182	700,265	144,025	50,878	895,168

*Refer note 7(c) for further break up of other reserves

The attached notes 1 to 14 form an integral part of this interim condensed consolidated financial information.

Burgan Bank Group

Interim Condensed Consolidated Statement of Cash Flows Period ended 30 September 2019 (Unaudited)

	Note	Nine months ended 30 September	
		2019 KD 000's	2018 KD 000's
Operating activities			
Profit for the period before taxation		77,910	81,416
Adjustments:			
Net investment income		(11,173)	(1,752)
Provision for credit losses		25,723	45,192
Provision reversal for other financial assets		(61)	(932)
Interest payment on AT1 Securities		496	-
Dividend income		(3,564)	(11,336)
Depreciation and amortisation		11,408	9,008
Operating profit before changes in operating assets and liabilities		100,739	121,596
Changes in operating assets and liabilities:			
Treasury bills and bonds with CBK and others		43,095	107,112
Due from banks and other financial institutions		(36,940)	145,289
Loans and advances to customers		19,371	207,257
Other assets		(13,157)	(57,028)
Due to banks		(703,269)	(297,526)
Due to other financial institutions		(47,461)	(84,234)
Deposits from customers		199,349	(313,500)
Other liabilities		(25,578)	52,249
Taxation paid		(4,896)	(6,602)
Net cash flows used in operating activities		(468,747)	(125,387)
Investing activities			
Purchase of investment securities		(473,706)	(228,221)
Proceeds from sale of investment securities		535,714	329,197
Purchase of property and equipment, net of disposals		(15,158)	(6,916)
Net movement in non-controlling interest		(480)	448
Dividends received		3,564	11,336
Net cash flows from investing activities		49,934	105,844
Financing activities			
Other borrowed funds		970	34,048
Sale of treasury shares		696	205
Cash dividend paid to equity holders of the Bank		(29,924)	(15,021)
Cash dividend paid to non-controlling interest		(202)	(612)
Net proceeds from issue of Tier 1 Capital securities		150,558	-
Repayment of Tier 1 Capital securities		(152,403)	-
Interest payment on Tier1 capital securities		(9,881)	(10,930)
Net cash flows (used in) from financing activities		(40,186)	7,690
Net decrease in cash and cash equivalents		(458,999)	(11,853)
Effect of foreign currency translation		(7,870)	(53,230)
Cash and cash equivalents at 1 January		1,164,270	937,174
Cash and cash equivalents at 30 September	4	697,401	872,091
Additional cash flow information:			
Interest received		282,705	217,058
Interest paid		147,694	134,223

The attached notes 1 to 14 form an integral part of this interim condensed consolidated financial information.

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information As at 30 September 2019 (Unaudited)

1. INCORPORATION AND REGISTRATION

Burgan Bank K.P.S.C. (the “Bank”) is a public shareholding company incorporated in the State of Kuwait by Amiri Decree dated 27 December 1975 listed on the Kuwait Stock Exchange and is registered as a Bank with the Central Bank of Kuwait (“CBK”). The Bank’s registered address is P.O. Box 5389, Safat 12170, State of Kuwait.

The interim condensed consolidated financial information of the Bank and its subsidiaries (collectively “the Group”) for the period ended 30 September 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 7 October 2019.

The principal activities of the Group are explained in note 10.

The Bank is a subsidiary of Kuwait Projects Company Holding K.S.C.P. (the “Parent Company”).

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The interim condensed consolidated financial information of the Group have been prepared in accordance with International Accounting Standard (“IAS”) 34: Interim Financial Reporting except as noted below.

The annual consolidated financial statements for the year ended 31 December 2018 were prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted for use by the State of Kuwait for financial services institutions regulated by the CBK. These regulations require expected credit loss (“ECL”) to be measured at the higher of the ECL on credit facilities computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by CBK instructions; the consequent impact on related disclosures; and the adoption of all other requirements of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (“IASB”) (collectively referred to as IFRS, as adopted for use by the State of Kuwait). The Expected Credit Losses on credit facilities determined under IFRS 9 in accordance with CBK guidelines amounted to KD 216,927 thousand as at 30 September 2019 (31 December 2018: KD 218,278 thousand) which is lower than the total provision for credit losses recorded as per CBK instructions.

The accounting policies used in the preparation of this interim condensed consolidated financial information are consistent with those used in the previous financial year. From the current year, the reporting date of subsidiaries is a date not earlier than one month from the Group reporting date. The impact of this is not material to the interim condensed consolidated financial information. Further the Group has adopted IFRS 16 Leases from 1 January 2019 as explained below.

The interim condensed consolidated financial information does not contain all information and disclosures required for full financial statements prepared in accordance with IFRS, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2018.

Further, results for the nine months period ended 30 September 2019, are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2019 did not have any material impact on the accounting policies, financial position or performance of the Group.

3. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

The key changes to the Group’s accounting policies resulting from its adoption of IFRS 16 are summarised below:

IFRS 16 - Leases

The Group has adopted IFRS 16 issued in January 2016 with a date of initial application of 1 January 2019. IFRS 16 replaces IAS 17, IFRIC 4, SIC-15 and SIC-27. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The Group, as a lessee, has adopted the following accounting policy in respect of its leases:

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information As at 30 September 2019 (Unaudited)

3. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (continued)

IFRS 16 – Leases (continued)

At inception of a contract, the Group assesses whether the contract is a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. If the contract is identified as a lease, the Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method.

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated. Lease liabilities and right of use of assets were both recorded at the present value of future lease payments, thus no impact was recorded on the opening retained earnings. The Group presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the interim condensed consolidated statement of financial position.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of vehicles and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). The Group also applies the lease of low-value assets recognition exemption to leases of vehicles and office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

4. CASH AND CASH EQUIVALENTS

	<i>30 September</i> <i>2019</i> <i>KD 000's</i>	<i>(Audited)</i> <i>31 December</i> <i>2018</i> <i>KD 000's</i>	<i>30 September</i> <i>2018</i> <i>KD 000's</i>
Cash in hand and in current account with banks & OFIs	466,279	448,446	416,316
Balances with CBK	56,399	185,513	69,986
Due from banks and OFIs maturing within thirty days	174,896	530,480	385,913
	<u>697,574</u>	<u>1,164,439</u>	<u>872,215</u>
Expected credit losses	(173)	(169)	(124)
	<u>697,401</u>	<u>1,164,270</u>	<u>872,091</u>

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information As at 30 September 2019 (Unaudited)

5. OTHER BORROWED FUNDS

		<i>30 September 2019</i>	<i>(Audited) 31 December 2018</i>	<i>30 September 2018</i>
	<i>Effective interest rate</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Subordinated bonds – KWD 2026 (Fixed tranche)	6.00%	29,868	29,841	29,832
Subordinated bonds – KWD 2026 (Floating tranche capped at 7%)	CBK + 3.95%	69,362	69,299	69,278
Medium term borrowing	3M Libor + 0.95%	106,262	105,920	105,823
Euro Medium Term Note	3.125%	151,446	150,852	150,678
Senior unsecured fixed rate bonds	4.125%	99,690	99,624	-
Other borrowings – subsidiaries	1.00% - 3.17%	506	628	931
		<u>457,134</u>	<u>456,164</u>	<u>356,542</u>

6. OTHER LIABILITIES

	<i>30 September 2019</i>	<i>(Audited) 31 December 2018</i>	<i>30 September 2018</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Accrued interest payable	53,701	63,889	64,726
Staff benefits	15,662	15,062	13,897
Provision for non - cash credit facilities	14,651	14,734	14,739
Clearing cheques and balances	32,993	22,375	39,871
Income received in advance	11,824	13,257	10,584
Other payable and accruals	49,387	37,806	36,080
Deferred tax liabilities	714	2,265	2,769
Taxation payable	12,707	15,414	11,946
Other balances	76,976	90,783	72,514
	<u>268,615</u>	<u>275,585</u>	<u>267,126</u>

7. SHAREHOLDERS' EQUITY

- a) At the extra ordinary general meeting of the shareholders held on 23 December 2018, the shareholders approved to increase the bank's authorized capital from KD 250,000,000 (Kuwaiti Dinar Two Hundred Fifty Million Only) to KD 400,000,000 (Kuwaiti Dinar Four Hundred Million Only) and to amend article (6) of the Bank's Memorandum of Association and article (5) of the Articles of Association. During the period necessary regulatory approvals have been obtained. The issued and fully paid up share capital of the Bank comprises 2,625,000,000 shares (31 December 2018: 2,500,000,000, 30 September 2018: 2,259,418,470) of 100 fils each.

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information As at 30 September 2019 (Unaudited)

7. SHAREHOLDERS' EQUITY (continued)

b) Treasury shares

	30 September 2019	<i>(Audited)</i> 31 December 2018	30 September 2018
Number of shares held	4,577,228	6,295,913	6,295,913
Percentage of shares held	0.17%	0.25%	0.28%
Cost KD 000's	1,742	2,518	2,518
Market value - KD 000's	1,437	1,750	1,574
Weighted average market value per share (fils)	332	272	268

The balance in the treasury share reserve account is not available for distribution. An amount equal to the cost of treasury shares is not available for distribution from share premium, statutory reserve, voluntary reserve and retained earnings throughout the holding period of these treasury shares.

c) Other reserves

	<i>Nine months period ended 30 September 2019</i>			
	<i>Hedge of net investment in foreign operations KD 000's</i>	<i>Cash flow hedge reserve KD 000's</i>	<i>Changes in ownership in subsidiaries KD 000's</i>	<i>Total KD 000's</i>
Balance at 1 January	16,022	7,536	(1,501)	22,057
Changes in fair value of cash flow hedge reserve	-	(5,008)	-	(5,008)
Net loss on hedge of a net investment	(8,964)	-	-	(8,964)
Net movement in non-controlling interest	-	-	23	23
Total comprehensive (loss) income	(8,964)	(5,008)	23	(13,949)
Balance at 30 September 2019	7,058	2,528	(1,478)	8,108

	<i>Nine months period ended 30 September 2018</i>			
	<i>Hedge of net investment in foreign operations KD 000's</i>	<i>Cash flow hedge reserve KD 000's</i>	<i>Changes in ownership in subsidiaries KD 000's</i>	<i>Total KD 000's</i>
Balance at 1 January	(985)	4,041	(1,553)	1,503
Changes in fair value of cash flow hedge reserve	-	9,060	-	9,060
Net gain on hedge of a net investment	41,670	-	-	41,670
Net movement in non-controlling interest	-	-	52	52
Total comprehensive income	41,670	9,060	52	50,782
Balance at 30 September 2018	40,685	13,101	(1,501)	52,285

d) Dividends and bonus shares

On 27 March 2019, the annual general assembly approved the distribution of cash dividend of 12 fils per share (2017: 7 fils) and stock dividend of 5% (2017: 5%) for the year ended 31 December 2018.

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information

As at 30 September 2019 (Unaudited)

7. SHAREHOLDERS' EQUITY (continued)

e) Perpetual Tier 1 Capital Securities

On 2 July 2019, the Bank issued Perpetual Tier 1 Capital Securities (the "Tier 1 securities"), amounting to USD 500,000 thousand.

The Tier 1 securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 securities do not have a maturity date. They are redeemable by the Bank at its discretion after 9 July 2024 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

The Tier 1 securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 5.7492%. Thereafter the interest rate will be reset at five-year intervals. Interest will be payable semi-annually in arrears and treated as a deduction from equity.

The Bank at its sole discretion may elect not to distribute interest and this is not considered an event of default. If the Bank does not pay interest on the Tier 1 securities, on a scheduled interest payment date (for whatever reason), then the Bank must not make any other distribution or payment on or with respect to its other shares that rank equally with or junior to the Tier 1 securities (other than pro-rata distributions or payments on shares that rank equally with Tier 1 securities) unless and until it has paid two consecutive interest payments in full on the Tier 1 securities.

The Tier 1 securities issued on 30 September 2014, through Burgan Tier 1 Financing Limited, were redeemed partially on 2 July 2019 through a tender buy-back amounting to USD 230,185 thousand at a price of 100.85% of their nominal value and the balance Tier 1 securities amounting to USD 269,815 thousand were redeemed together with interest accrued on its first call date of 30 September 2019. Premium paid on the tender buy-back along with the foreign exchange translation were recorded in the interim condensed consolidated statement of changes in equity for the period.

8. TAXATION

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>		<i>30 September</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
National Labour Support Tax	595	538	1,773	1,861
Contribution to the Kuwait Foundation for the Advancement of Science	236	237	706	808
Zakat	238	214	709	744
Taxation arising from overseas subsidiaries	2,272	2,132	5,746	6,304
	<u>3,341</u>	<u>3,121</u>	<u>8,934</u>	<u>9,717</u>

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information

As at 30 September 2019 (Unaudited)

9. EARNINGS PER SHARE

Basic and diluted earnings per share is computed by dividing the profit for the period attributable to equity holders of the Bank after interest payment of Tier 1 capital securities by the weighted average number of shares outstanding during the period less treasury shares.

The computation of basic and diluted earnings per share is as follows:

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>		<i>30 September</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Profit for the period attributable to equity holders of the Bank	22,688	20,489	67,454	70,960
Less: interest and other payments on Tier 1 capital securities	(12,252)	(5,497)	(17,763)	(10,930)
Profit for the period attributable to equity holders of the Bank after interest and other payments on Tier1 capital securities	10,436	14,992	49,691	60,030
	<i>Shares</i>	<i>Shares</i>	<i>Shares</i>	<i>Shares</i>
Weighted average number of outstanding shares, net of treasury shares	2,618,980,370	2,377,802,014	2,618,584,672	2,377,636,553
Basic and diluted earnings per share (fils)	4.0	6.3	19.0	25.2

Basic and diluted earnings per share for the comparative period presented have been restated to reflect the effect of bonus shares (note 7).

10. SEGMENT INFORMATION

For management purposes, the Group organises its operations by geographic territory in the first instance, primarily Domestic and International. All operations outside Kuwait are classified as International. Within its domestic operations, the Group is organised into the following business segments.

- Corporate banking: provides comprehensive product and services to corporate customers and financial institutions including lending, deposits, trade services, foreign exchange, advisory services and others.
- Private and retail banking: provides wide range of products and services to retail and private bank customers including loans, deposits, credit and debit cards, foreign exchange, and others.
- Treasury, investment banking and others: includes treasury asset liability and liquidity management, investment services and management, fund management and any residual of transfer pricing. It also provides products and services to banks including money markets, lending, deposits, foreign exchange and others.

Executive Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segment result after provisions which in certain respects are measured differently from operating profit or loss in the interim condensed consolidated financial information.

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information

As at 30 September 2019 (Unaudited)

10. SEGMENT INFORMATION (continued)

The following table present information relating to the income and results of the Group's operating segments for the nine months period ended 30 September 2019:

	Kawait Operations			Total KD 000's	International Operations KD 000's	Unallocated Intragroup Transactions KD 000's	Group Total KD 000's
	Retail and private banking		Treasury, investment banking and others				
	Corporate banking KD 000's	KD 000's	KD 000's				
<i>30 September 2019</i>							
Net interest income	43,682	27,333	12,495	83,510	54,001	(12,294)	125,217
Segment operating income	54,592	32,429	36,895	123,916	74,251	(19,901)	178,266
Depreciation and amortisation	(1,104)	(2,384)	(690)	(4,178)	(4,273)	(2,957)	(11,408)
Segment result before provisions	46,618	15,201	31,889	93,708	41,034	(22,652)	112,090
Provision for credit losses	(4,715)	(2,994)	1,666	(6,043)	(16,267)	(3,413)	(25,723)
Provision charge (reversal) for other financial assets	-	-	105	105	(44)	-	61
Segment result after provisions	41,903	12,207	33,660	87,770	24,723	(26,065)	86,428
Unallocated expenses				(8,518)	-	-	(8,518)
Profit for the period before taxation				79,252	24,723	(26,065)	77,910

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information

As at 30 September 2019 (Unaudited)

10. SEGMENT INFORMATION (continued)

	Kuwait Operations			International Operations	Unallocated Intragroup Transactions	Group Total
	Corporate banking KD 000's	Retail and private banking KD 000's	Treasury, investment banking and others KD 000's			
<i>30 September 2018</i>						
Net interest income	38,655	26,414	20,966	62,596	(9,969)	138,662
Segment operating income	53,680	31,863	50,708	87,689	(17,329)	206,611
Depreciation and amortisation	(716)	(1,335)	(430)	(3,570)	(2,957)	(9,008)
Segment result before provisions	45,943	17,430	46,059	46,103	(18,106)	137,429
Provision for credit losses	(7,427)	(2,092)	(10,073)	(20,662)	62	(40,192)
Provision reversal for other financial assets	1	-	63	867	1	932
Segment result after provisions	38,517	15,338	36,049	26,308	(18,043)	98,169
Unallocated expenses						(11,753)
Unallocated provisions						(5,000)
Profit for the period before taxation			73,151	26,308	(18,043)	81,416

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information

As at 30 September 2019 (Unaudited)

10. SEGMENT INFORMATION (continued)

	Kuwait Operations			Total KD 000's	International Operations KD 000's	Unallocated Intragroup Transactions KD 000's	Group Total KD 000's
	Corporate banking KD 000's	Retail and Private banking KD 000's	Treasury and investment banking and others KD 000's				
<i>30 September 2019</i>							
Total assets	2,265,252	1,069,679	1,811,040	5,145,971	2,201,288	(589,539)	6,757,720
Total liabilities	816,753	983,089	2,394,586	4,194,428	1,888,253	(275,462)	5,807,219
<i>31 December 2018 (Audited)</i>							
Total assets	2,042,676	1,045,683	2,462,767	5,551,126	2,402,784	(641,830)	7,312,080
Total liabilities	901,337	906,792	2,800,141	4,608,270	2,093,992	(337,662)	6,364,600
<i>30 September 2018</i>							
Total assets	1,876,181	1,033,939	2,183,765	5,093,885	2,394,577	(651,590)	6,836,872
Total liabilities	904,154	880,452	2,402,172	4,186,778	2,101,462	(346,536)	5,941,704

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information As at 30 September 2019 (Unaudited)

11. TRANSACTIONS WITH RELATED PARTIES

The Group has entered into transactions with certain related parties (Parent Company, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties) who were customers of the Group during the period. The "Others" column in the table below mainly represent transactions with other related parties that are either controlled or significantly influenced by the parent company. The terms of these transactions are substantially on the same commercial basis and as approved by the Group's management, including collateral. Lending to Board Members and their related parties is secured by tangible collateral in accordance with regulations of CBK.

The outstanding balances and transactions are as follows:

				(Audited)		
	<i>Parent</i>			<i>30 September</i>	<i>31</i>	<i>30</i>
	<i>Company</i>	<i>Associates</i>	<i>Others</i>	<i>2019</i>	<i>December</i>	<i>September</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>2018</i>	<i>2018</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Assets and Liabilities						
Due from banks and OFIs*	-	-	201,610	201,610	251,830	243,760
Loans and advances to customers*	-	-	879,249	879,249	914,318	874,405
Investment securities	22,763	-	125,855	148,618	124,778	133,671
Investment securities managed by a related party	-	-	63,785	63,785	65,997	61,199
Other assets	-	-	4,769	4,769	2,703	2,703
Due to banks	-	-	7,368	7,368	7,288	7,018
Due to other financial institutions	-	-	39,418	39,418	38,446	55,325
Deposits from customers	31,273	-	49,545	80,818	84,833	70,782
Commitments, contingent liabilities and derivatives						
Letters of credit	-	-	13,484	13,484	15,006	12,908
Letters of guarantee	-	-	81,227	81,227	63,855	63,021
Derivative financial instruments	-	-	-	-	-	75,825
Transactions						
Interest income	26	-	35,711	35,737	40,539	30,636
Interest expense	(753)	-	(1,268)	(2,021)	(2,975)	(2,142)
Fee and commission income	2	-	1,221	1,223	1,994	1,789
Dividend income	926	-	1,844	2,770	10,933	10,933
Other expense	-	-	(2,199)	(2,199)	(2,743)	(2,092)
Other income	-	-	38	38	24	24
Other transactions during the period						
Purchase of investment securities	15,355	-	7,699	23,054	61,806	-
Sale of investment security	-	-	-	-	85,832	9,000
Gain (loss) on sale of investment	-	-	-	-	1,085	(180)

*As of period ended 30 September 2019, the fair value of total eligible collateral to the extent of the outstanding balances amounted to KD 475,209 thousand (31 December 2018: KD 470,561 thousand, 30 September 2018: KD 435,651 thousand).

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information As at 30 September 2019 (Unaudited)

11. TRANSACTIONS WITH RELATED PARTIES (continued)

	<i>No. of Board members / Group executive staff</i>	<i>(Audited)</i>		
		<i>30 September 2019 KD 000's</i>	<i>31 December 2018 KD 000's</i>	<i>30 September 2018 KD 000's</i>
Board members*				
Loans and advances	3	3,957	3,261	3,313
Deposits from customers	7	315	396	569
Group executive staff				
Loans and advances	15	235	251	223
Deposits from customers	38	2,340	2,055	1,914
Letters of guarantee	2	1	1	1

*Transactions with Board members include transactions with one of the Group executive staff who is also a board member.

Key management compensation

Remuneration payable or estimated accruals in relation to "key management" (deemed for this purpose to comprise Directors in relation to their committee service, the Chief Executive Officer and other Senior Officers), was as follows:

	<i>Nine months ended 30 September</i>	
	<i>2019 KD 000's</i>	<i>2018 KD 000's</i>
Short term employee benefits – including salary and bonus	4,328	4,002
Accrual for end of service indemnity	439	330
Accrual for cost of long term incentive rights	917	906
Accrual for committee services	270	225
	<u>5,954</u>	<u>5,463</u>

12. COMMITMENTS AND CONTINGENT LIABILITIES

	<i>(Audited)</i>		
	<i>30 September 2019 KD 000's</i>	<i>31 December 2018 KD 000's</i>	<i>30 September 2018 KD 000's</i>
Acceptances	54,014	44,462	43,699
Letters of credit	212,870	289,205	266,611
Letters of guarantee	820,423	808,974	811,957
Undrawn lines of credit	621,380	529,520	578,202
Other commitments	49,150	26,595	29,590
	<u>1,757,837</u>	<u>1,698,756</u>	<u>1,730,059</u>

13. DERIVATIVES

The table below shows the notional amounts of derivatives outstanding as of the reporting date. The notional amount of a derivative's underlying asset, reference rate or index is the basis upon which changes in the value of derivatives are measured.

Hedge of net investment in foreign operations

The Bank entered into forward foreign exchange contracts between TRY and USD, as a hedge of the Bank's net investment in its Turkish subsidiary. Gains or losses on the retranslation of the aforesaid contracts are transferred to equity to offset any gains or losses on translation of the net investments in the Turkish subsidiary. No ineffectiveness from hedges of net investments in foreign operations was recognised in interim condensed consolidated statement of income during the period.

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information As at 30 September 2019 (Unaudited)

13. DERIVATIVES (continued)

Derivatives held for hedging

Interest Rate Swaps

One of the subsidiary of the Group applies cash flow hedge accounting using interest rate swaps to hedge its foreign currency deposits with an average maturity up to 3 months against interest rate fluctuations. The subsidiary implements effectiveness tests at balance sheet dates for hedge accounting; the effective portions are accounted as part of changes in fair value of derivatives under other reserves, whereas the ineffective portion is recognised in interim condensed consolidated statement of income. No ineffectiveness from hedges was recognised in interim condensed consolidated statement of income during the period.

Derivatives held for trading

Derivative transactions for customers and derivatives used for economic hedging purpose as part of the Group's risk management strategy but which do not meet the qualifying criteria for hedge accounting are classified as 'Derivatives held for trading'. The risk exposures on account of derivative transactions for customers are covered by entering in to similar transactions with counter parties or by other risk mitigating transactions.

The positive fair value of derivative instruments as at 30 September 2019 is KD 41,388 thousand (31 December 2018: KD 71,202 thousand and 30 September 2018: KD 94,449 thousand) and the negative fair value is KD 22,867 thousand (31 December 2018: KD 29,360 thousand and 30 September 2018: KD 37,872 thousand), included in the carrying amount of other assets and other liabilities respectively.

The notional amounts of derivatives are as follows:

	30 September 2019	<i>(Audited)</i> 31 December 2018	30 September 2018
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Derivatives held for trading: (non-qualifying hedges)			
Forward swaps / foreign exchange contracts	1,013,496	882,240	875,978
Interest rate swaps	208,817	269,553	288,607
Options	66,648	220,446	571,229
Derivatives held for hedging:			
Forward swaps / foreign exchange contracts	64,939	69,298	102,129
Interest rate swaps	179,025	212,006	197,544

14. FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial instruments comprise of financial assets and financial liabilities.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable;

Burgan Bank Group

Notes to the Interim Consolidated Financial Information

As at 30 September 2019 (Unaudited)

14. FINANCIAL INSTRUMENTS (continued)

Fair values of all financial instruments are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short-term maturity (less than nine months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity.

Movement in level 3 is mainly on account of additions and change in fair value. During the period, an increase of KD 44 thousand (30 September 2018: decrease of KD 931 thousand) was recorded in the other comprehensive income representing change in fair value. There were no material transfers between the levels during the period.

Fair value measurement hierarchy for financial assets and financial liabilities that are carried at fair value is as follows:

	30 September 2019			31 December 2018			30 September 2018					
	Level 1 KD '000	Level 2 KD '000	Level 3 KD '000	Total KD '000	Level 1 KD '000	Level 2 KD '000	Level 3 KD '000	Total KD '000	Level 1 KD '000	Level 2 KD '000	Level 3 KD '000	Total KD '000
Financial assets												
Equity securities	91,030	-	102,364	193,394	80,898	-	88,178	169,076	46,741	-	135,810	182,551
Debt securities	95,377	-	8,000	103,377	71,845	-	8,000	79,845	63,927	-	8,000	71,927
Managed funds	-	-	64,462	64,462	-	-	67,704	67,704	-	-	75,749	75,749
Derivative financial instruments	-	41,388	-	41,388	-	71,202	-	71,202	-	94,449	-	94,449
Financial liabilities												
Derivative financial instruments:												
		22,867		22,867		29,360		29,360		37,872		37,872

Investments securities classified as FVOCI and amortised cost and other debt instrument carried at amortised cost (excluding credit facilities) are subject to Expected Credit Losses. Central Bank of Kuwait bonds and Kuwait Government treasury bonds are not subject to Expected Credit Losses.

The impact on the interim condensed consolidated statement of financial position and the interim condensed consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by 5 per cent.

